

Daily Insight

Liquidity at month low

Key messages of the today's comments

MONDAY, 11 DECEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 8 December 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 8 December 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	12.20	-10bp	+160bp
Banks reserves (UAHm)	42,671	-1.34	-14.20
Deposit certificates* (UAHm)	32,742	-4.17	-47.39
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.1075	-0.05	+0.03
Total trade volume (US\$m)	183.19	-19.74	+8.01
UAH index CPI-based	111.408	-0.06	+3.14
UAH index PPI-based	168.892	-0.06	+0.29

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	434bp	+0bp	-219bp
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GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,651.50	+0.55	+18.43
MSCI EM	1,110.78	+0.93	+28.82
US dollar index (DXY)	93.901	+0.11	-8.13
EUR / USD	1.1773	+0.00	+11.94
Crude oil WTI (US\$/bbl)	57.36	+1.18	+6.78
Crude oil BRENT (US\$/bbl)	63.40	+1.93	+11.58
CRB, commodities index	185.02	+0.30	-3.89
Gold (US\$/ounce)	1,248.50	+0.10	+8.35

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity **2**

Liquidity at month low2

Last Thursday, liquidity continued to decline to a new low this month. Banks' correspondent accounts with the NBU fell UAH0.58bn to UAH42.67bn while total CDs outstanding fell UAH1.43bn to UAH32.74bn, decreasing liquidity UAH2.01bn to UAH75.41bn. Banks increased ON CDs by UAH0.91bn while longer term CDs fell by UAH2.34bn. **2**

Foreign exchange markets **3**

Hryvnia is stable3

On the last day of the week, the national currency almost did not change against the US dollar, but slightly strengthened. Liquidity in the banking system decreased by UAH2bn, which supported the hryvnia and lowered the demand for foreign currency in the local market. Overall, the hryvnia weakened by 0.2% over the past week. However, next week, the Ukrainian currency may be under pressure because of a transfer to the banking system of UAH4.4bn from the last tranche of the NBU to the budget. Thus, on Friday, the hryvnia increased by 0.04% to 27.1093 USD/UAH. It sold for 27.03 USD/UAH versus 27.2 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.06% to 111.41; in year-on-year terms, it is down 1.88% from 113.54 last year. **3**

Appendix #1: Domestic liquidity **4**

Domestic liquidity

Liquidity at month low

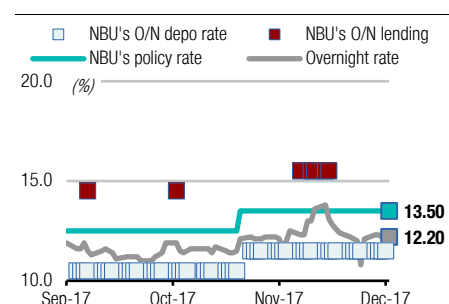
Last Thursday, liquidity continued to decline to a new low this month. Banks' correspondent accounts with the NBU fell UAH0.58bn to UAH42.67bn while total CDs outstanding fell UAH1.43bn to UAH32.74bn, decreasing liquidity UAH2.01bn to UAH75.41bn. Banks increased ON CDs by UAH0.91bn while longer term CDs fell by UAH2.34bn.

Fund outflows were caused by non-monetary operations at UAH2.02bn. Banks increased the exchange of reserves into cash with a net outflow UAH1.68bn while the negative impact from Treasury operations amounted to UAH0.34bn. At the same time, the NBU provided a UAH0.01b ON loan to one bank.

ICU view: *Currently, liquidity remains low with a delay in recovery which should start later this week. If local budgets withdraw their deposits prior to a significant increase in budget expenditures, this will have a negative impact on liquidity. As banks decreased their investments in 2-week CDs, there is a high anticipation of significant volatility and a slow recovery in liquidity over the next few days.*

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Interest rates in the banks' reserves market (three months through 8 December 2017)



Source: Bloomberg, ICU.

Key indicators (as of 8 December 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	13.50	+0bp	+0bp	+0bp	-50bp
ON rate	12.20	-10bp	+10bp	+60bp	+160bp
ON \$ swap	N/A	N/A	N/A	N/A	N/A
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	42,671	-1.34	-1.27	+1.63	-14.20
DepCerts ³	32,742	-4.17	-8.41	-0.20	-47.39
Total	75,413	-2.59	-4.50	+0.83	-32.65
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	329,923	+1.11	+1.03	+4.85	+91.44
Residents	21,294	-0.04	-0.07	-2.64	-9.71
Individuals	1,174	-0.17	+1.17	+30.13	+1,028.2
Non-res ⁴	4,781	-0.12	-0.14	+0.03	-24.72
Total	717,744	+0.51	+0.47	+2.13	+30.38
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	13.64	+157bp	-46bp	-101bp	-867bp
3 months	13.26	+30bp	-269bp	-143bp	-880bp
6 months	11.61	+8bp	-177bp	-89bp	-644bp
1 year	11.31	+9bp	-78bp	-33bp	-468bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	434	+0bp	+0bp	-20bp	-219bp

Notes: [1] NBU's key policy rate; [2] stock of banks' reserves held at NBU; [3] stock of NBU's short-term bonds; [4] non-residents.

Source: Bloomberg, ICU.

Foreign exchange markets

Hryvnia is stable

On the last day of the week, the national currency almost did not change against the US dollar, but slightly strengthened. Liquidity in the banking system decreased by UAH2bn, which supported the hryvnia and lowered the demand for foreign currency in the local market. Overall, the hryvnia weakened by 0.2% over the past week. However, next week, the Ukrainian currency may be under pressure because of a transfer to the banking system of UAH4.4bn from the last tranche of the NBU to the budget. Thus, on Friday, the hryvnia increased by 0.04% to 27.1093 USD/UAH. It sold for 27.03 USD/UAH versus 27.2 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.06% to 111.41; in year-on-year terms, it is down 1.88% from 113.54 last year.

The US dollar rose on Friday against the other major currencies in world markets. Positive attitudes toward anticipated tax reform supported this growth, along with the news about the continued financing of the government by December 22. The growth of jobs in the United States amounted to 228,000, which exceeded the expectation of 200,000. However, the growth of the average hourly wage amounted to 0.2% against expectations of 0.3%, which adversely affected the greenback. Nevertheless, the DXY index traded at 93.801-94.087, closing up 0.1% to 93.901.

The single European currency decreased against the US dollar during trading on Friday in the absence of important macroeconomic news, but slightly restore its losses to the end of the day. Thus, the euro traded within 1.173-1.1777 EUR/USD and finished at 1.1773 as the day before. The Chinese yuan did not change much against the growing dollar as international foreign exchange reserves reached US\$3.12tn, an increase of US\$10.1bn in November. Accordingly, the renminbi finished trading at 6.6209 USD/CNY.

Growing oil prices supported the Russian currency on Friday, when the ruble grew despite the strengthening of the dollar in world markets. Also, the ruble supported the existing demand for local financial assets from foreign investors, although it is gradually declining. The ruble traded within 59.0455-59.419 USD/RUB, and closed up 0.1% to 59.1269.

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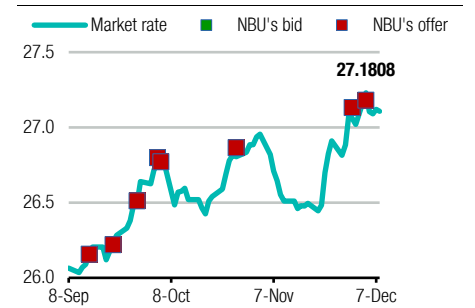
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 8 December 2017)

	Last	Daily	Weekly	Monthly	YTD
		chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.1075	-0.05	+0.32	+1.74	+0.03
USD ¹	93.901	+0.11	+1.09	-1.02	-8.13
EUR	1.1773	+0.00	-1.03	+1.54	+11.94
JPY	113.4800	+0.34	+1.17	-0.34	-2.98
GBP ²	1.3390	-0.62	-0.65	+2.09	+8.51
CNY	6.6209	+0.02	+0.07	-0.11	-4.67
RUB	59.1269	-0.08	+0.39	-0.18	-3.92

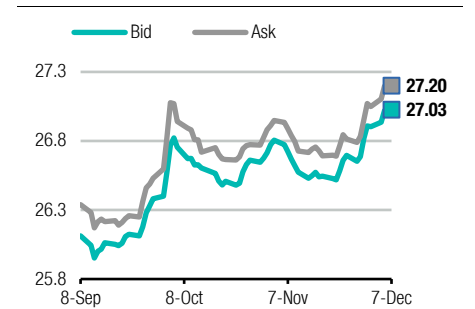
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 8 December 2017)



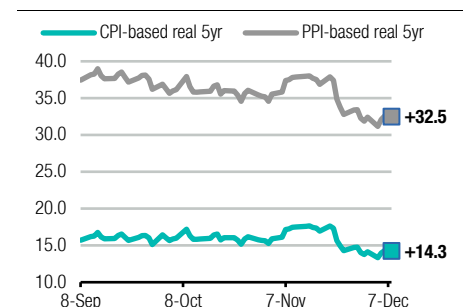
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 8 December 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 8 December 2017)



Notes: [1] "+" overvalued, "-" undervalued; [2] based on the UAH's CPI- and PPI-based real TWIs. Source: ICU.

Appendix #1: Domestic liquidity

Chart 1. Banks reserves usages over last reporting date (UAHm)

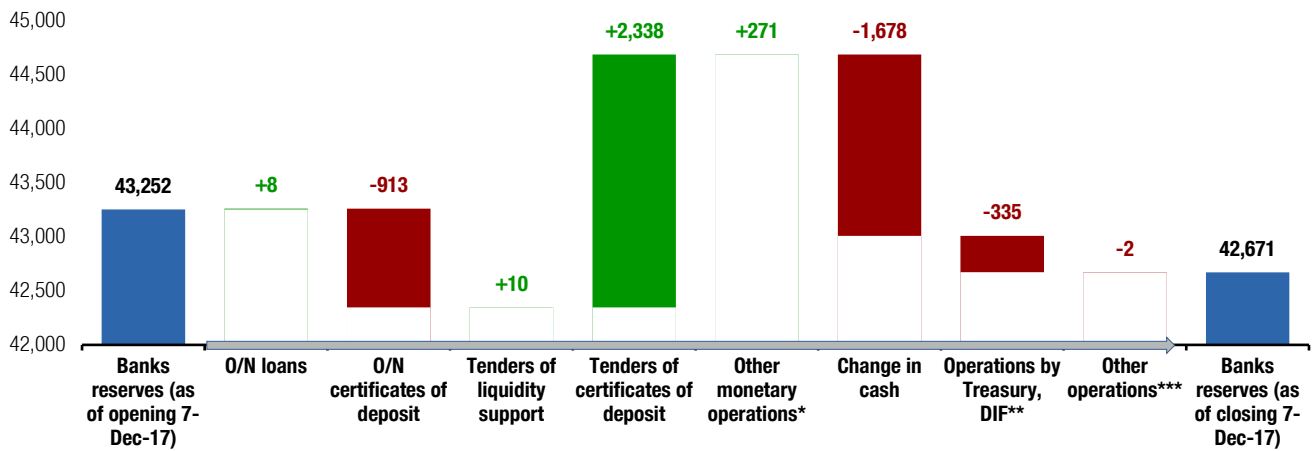
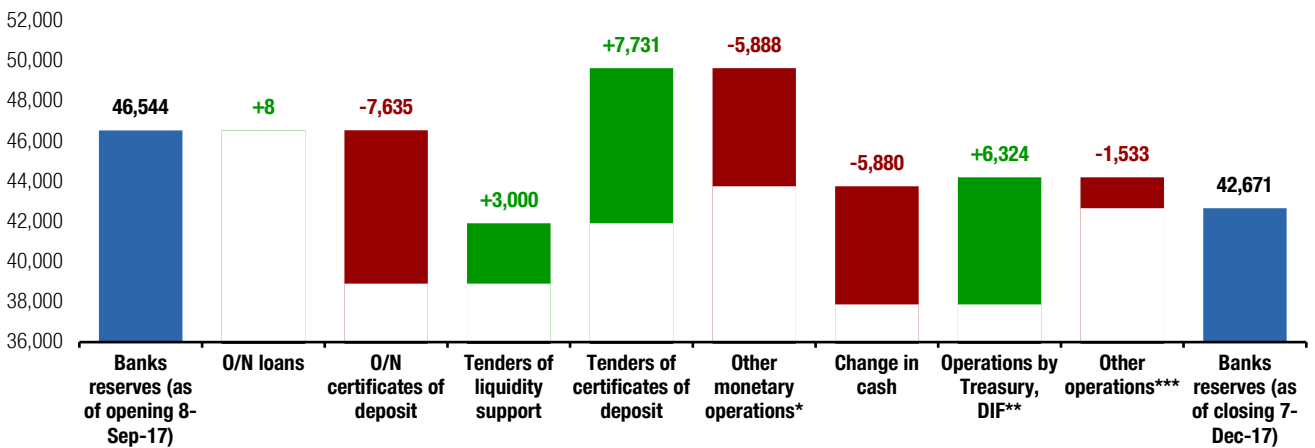
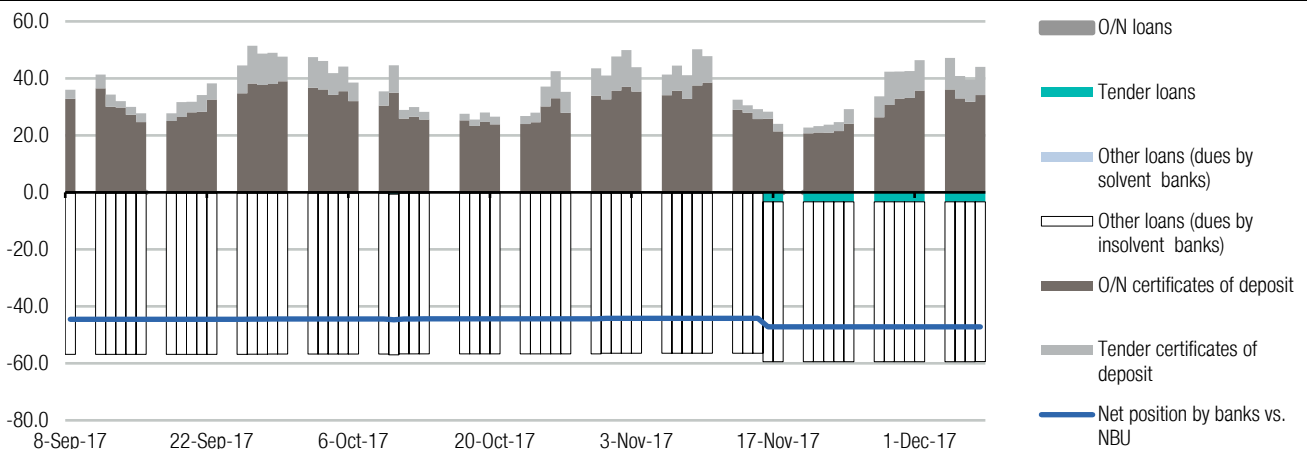


Chart 2. Banks reserves usages over last 90-day period (UAHm)



Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;
 * operations repo, purchase and sale of government bonds, FX market interventions, stabilisation loans, FX swap agreements; ** DIF – deposit insurance fund;
 *** interest payments on NBU's loans and on NBU's certificates of deposit, other operations. Source: NBU, ICU.

Chart 3. Stocks of NBU's monetary instruments and net position by banks versus NBU (UAHbn)



Source: NBU, ICU.

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